BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION Complainant, v. PUGET SOUND ENERGY, INC. Respondent.	DOCKET NO. UG-140525 COMMENTS OF THE NORTHWEST INDUSTRIAL GAS USERS

1 The Northwest Industrial Gas Users (NWIGU) provide these comments in response to the Notice of Opportunity to File Written Comments issued April 10, 2014 in the above-captioned matter. NWIGU appreciates that the Washington Utilities and Transportation Commission (Commission) is soliciting input in this matter and will participate in the workshop that has been scheduled for April 25, 2014. The issue of whether a local distribution company (LDC) should participate in providing compressed natural gas (CNG) and liquefied natural gas (LNG) services to the transportation sector, and if so under what structure, presents unique regulatory issues. Fueling natural gas powered vehicles is an emerging market for natural gas for both economic and environmental reasons. Washington is poised to be a leader in this field. NWIGU's written comments will address the questions as posed in the Notice.

Question 1.
What are the benefits to Washington State of widespread availability of compressed natural gas services for transportation?

2 NWIGU believes that facilitating an energy consumer's switch from oil to natural gas is an effective way to save that energy consumer money, reduce dependency on foreign oil, and address concerns about carbon dioxide emissions and emissions of other air pollutants. Natural

gas burned in Washington is 100 percent North American. Natural gas as a vehicle fuel provides economic and environmental opportunities especially in the part of the transportation market that uses a great deal of fuel: trucks, taxis, trash haulers, transit, fleet vehicles and ships. Natural gas as a commodity sells at well below the price of oil and has now for several years. Access to compression services would allow heavy consumers of vehicle fuels to save money as the cost of the compression equipment for the vehicle would quickly be paid back through the savings in the fuel price.

3 The climate advantage of natural gas is a major consideration for NWIGU. Attached as Exhibit A to these comments is a chart from the Energy Information Administration that shows the air toxins and carbon dioxide emitted by the combustion of natural gas, oil and coal. Natural gas emits nearly 30 percent less carbon dioxide than oil. Air toxins such as sulfur dioxide, mercury and particulates are nearly non-existent when burning natural gas. The transportation sector is the largest emitter of carbon dioxide in the State of Washington so facilitating wider-scale access to cleaner burning transportation fuels is a positive step in addressing carbon dioxide emissions.

4 It has been known for decades that natural gas is a superior fossil fuel to oil and coal from an environmental perspective. Ten years ago the concern that natural gas supplies were not sufficient held the US back from promoting a shift to natural gas in the transportation sector. Supply is not a concern today, as the rapid expansion of natural gas from unconventional sources has led to an abundance of natural gas in North America. The United State in general and Washington in particular are poised to be able to reduce the carbon footprint of the transportation sector without mandates, taxes, or subsidies by facilitating the development of CNG and LNG services for transportation.

5 NWIGU embraces regulatory policies that facilitate switching to natural gas in the transportation sector in order to reduce carbon dioxide emissions in Washington. NWIGU believes that the climate challenge will be solved with a lot of small steps like using natural gas in the transportation sector, not by waiting for a single "game-changing" technology.

6 The economics of natural gas vehicles are superior to gasoline and electric cars. Consider the following from *Energy for Future Presidents - The Science Behind the Headlines* by Richard A. Mueller, p 263:

- The cost of natural gas to drive one mile is about 4 cents. Compare that to the current cost of 10 cents per mile for gasoline (more if gasoline prices rise) or to the battery replacement cost of 44 to 75 cents per mile.
- Natural gas tanks are much cheaper than batteries and, unlike batteries, do not require replacement after 500 refills.

7 With a natural gas vehicle, you always get the 30 percent reduction in carbon dioxide emissions. With an electric vehicle, the carbon reduction depends completely on what you assume the source of electricity is for the vehicle. If you assume the electricity is generated from coal, the total air emissions are greater than with even a gasoline vehicle. *See Energy for Future Presidents*, p 257. Natural gas used directly in a vehicle is at least on a par with an electric vehicle that relies on natural gas-fired electricity as its energy source.

Question 2.
What are the benefits to utility ratepayers if the Commission approves a utility tariff for gas compression service, and if so, what are those ratepayers benefits?

8 The primary ratepayer benefit from any use of natural gas in the transportation sector would be the greater utilization of the natural gas distribution network and the recovery of more fixed costs from new natural gas ratepayers. Whether the compression service is provided by a regulated local distribution company, an unregulated subsidiary of an LDC or a completely

unregulated company, the customer will have to pay to have the gas delivered to the fueling facility. Incremental use of the LDC's distribution system lowers the cost of delivery service to other customers so long as there is underutilized distribution network on the LDC's system. A benefit to ratepayers results from that greater utilization of the gas distribution network and the new customers' contribution to fixed-cost recovery.

9 The key to there being a ratepayer benefit from a new gas compression service is that the tariffed compression service must contain no cross-subsidy from existing ratepayers. NWIGU supports allowing local distribution companies to offer compression or liquefaction services so long as those services are designed to be stand-alone services, relying in no way on utility assets or employees being used to subsidize the service. Given the price advantage of natural gas over oil, heavy users of gasoline and diesel do not need to be subsidized by ratepayers to switch to natural gas and take advantage of the compression service being offered by Puget Sound Energy (Puget) or another Washington LDC.

Question 3.
What are the risks to ratepayers, if any?

10 The primary risk to ratepayers is if the venture into compression service fails either because the LDC cannot successfully compete with unregulated firms or because the natural gas/oil spread collapses because natural gas prices rise or oil prices fall. Under such circumstances, there could be stranded investment. The Commission should be clear in any order approving a compression service being offered as a regulated utility service that the Commission will not allow the LDC to shift the risk of failure onto its existing customers. Tariffed services should be designed to ensure that stranded asset risk is on the compression customers and the LDC's shareholders. Compression customers should be required to sign contracts that cover the economic life of the compression assets used to provide the service. If a

compression customer defaults on its contract, the LDC should not be allowed to collect from other ratepayers the costs that were not collected under the contract.

11 The secondary risk is that an LDC could charge existing ratepayers the cost of employees being utilized to provide the compression service, thus providing a subsidy for the compression service at the expense of existing ratepayers. This risk can be guarded against by requiring the LDC to have accounting restrictions in place that charge compression customers for the full cost of any employees supporting the compression services.

Question 4.

Is the existing gas compression market potentially competitive? If so, how is the market benefited or harmed if a regulated utility provides services through its tariff?

12 While entry barriers exist, the market is clearly a competitive market. Compression equipment is manufactured and sold by un-regulated firms. Consumers can buy and maintain their own equipment. Puget is proposing a service whereby the customer will in essence lease the compression equipment over a set period of time. Un-regulated firms can provide a service that competes directly with the service Puget is offering.

13 The market should not be harmed by an LDC offering compression service as a regulated utility service unless the utility is allowed to provide subsidized services. The mere fact that the utility provides the service does not mean that other companies cannot compete with the utility. If Puget were proposing to build CNG public filling stations and have existing ratepayers subsidize the construction of those stations, competitors would be deterred from entering the market. Un-regulated firms, however, should be able to compete with an unsubsidized service such as the one Puget is proposing so long as the Commission review process ensures that the service finally approved is indeed free of subsidies and the tariffed prices are subject to being

adjusted upward in the event that the service is found to be below cost after the service has been offered for some period of time.

Question 5.
What would be the advantage or disadvantage to the market if a utility provides gas compression service as an unregulated subsidiary buying its gas from its regulated operation via an affiliate transaction?

14 Having the LDC offer compression services through an unregulated subsidiary is the best solution for the regulatory issues presented by Puget's filing. The reason an unregulated subsidiary is preferred by NWIGU is to be certain that no cross-subsidy occurs. Accounting procedures would still have to be put in place to guarantee that the utility operation is not subsidizing the un-regulated subsidiary. Such accounting procedures are already in place, however, to provide those safeguards, so an un-regulated subsidiary would present fewer regulatory issues than the offering being made by Puget for a tariffed service.

15 Notwithstanding NWIGU's preference for compression services to be provided through an unregulated subsidiary, so long as the regulatory oversight put in place accomplishes the goal of preventing subsidies, NWIGU can support the tariff offering by Puget as a regulated service being allowed to go in place by Commission order. NWIGU does not take the position that the Commission should force LDCs to offer compression services only through un-regulated subsidiaries.

Question 6.
What constraints exist in developing NGV infrastructure – both nationwide and in Washington?

16 There clearly are entry barriers to the NGV market - otherwise more natural gas compression services would be available for vehicles in Washington and in the United States. The United States lags behind the rest of the world in the use of natural gas as a vehicle fuel. There are 12 million natural gas vehicles in the world, but only about 150,000 in the United

States, even though the United States has an abundance of domestically produced natural gas that is among the lowest priced globally. *See Energy for Future Presidents*, p 264. Washington lags behind many states in the US for the use of natural gas as a vehicle fuel. There are high capital costs for the equipment, with the payback coming through reduced fuel bills in the future. If energy consumers become confident that the existing natural gas/oil spread will continue well into the future, the barriers to the capital investment in the equipment are likely to decline.

17 A classic chicken and egg problem exists, however. Companies are reluctant to invest in fueling stations because there are so few vehicles on the road. Consumers are reluctant to invest in CNG vehicles because of the lack of fueling stations. NWIGU views Puget's proposal as a step in the right direction, even though we are aware that un-regulated firms oppose the offering because they claim they will not be able to compete with regulated compression services from LDCs.

Question 7.
What are the appropriate private sector, utility, and commission roles in fostering the economic development and expansion of the necessary infrastructure?

18 The Commission's role should be to allow LDCs to offer compression services without requiring existing customers to subsidize the services. The private sector will offer competitive services to customers as the NGV market matures. Utilities should be allowed to offer un-regulated services and regulated services that are free of subsidies.

19 NWIGU does not share the concern of some third party providers of compression services that if utilities are allowed to go into the business of providing compression services for vehicle uses that the compressed natural gas business will be thwarted. NWIGU would only have that concern if utilities were allowed to provide subsidized services. The mere fact that the utility provides the service does not mean that other companies cannot compete with the utility.

If Puget were proposing to build CNG public filling stations and have existing ratepayers subsidize the construction of those stations, competitors could be deterred from entering the market. Unregulated firms should be able to compete with an unsubsidized service such as the one Puget is proposing.

20 Other states have approved CNG tariff services similar to the one being offered by Puget, including most recently the High Pressure Gas Service offered by NW Natural that was approved in Oregon. *See In Re Northwest Natural Gas Company Investigation into Schedule H, Large Volume Non-Residential High Pressure Gas Service Rider*, OPUC Docket No. UG 266, Order No. 14-014 (Jan. 14, 2014). The Oregon Public Utility Commission approved that tariff with conditions to prevent cross-subsidies. NWIGU would support similar conditions being imposed on the CNG service offering proposed by Puget.

Dated this 17th day of April, 2014.

Respectfully submitted,

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The Emission Advantage of Natural Gas

- **Fossil Fuel Emission Levels**
- **Pounds per Billion Btu of Energy Input**

Pollutant:	**Natural Gas**	**Oil**	**Coal**
Carbon Dioxide	117,000	164,000	208,000
Carbon Monoxide	40	33	208
Nitrogen Oxides	92	448	457
Sulfur Dioxide	1	1,122	2,591
Particulates	7	84	2,744
Mercury	0.000	0.007	0.016

- Source: EIA – Natural Gas Issues and Trends 1998

Exhibit A